

**ANNEXURE - ST - IX**

**A. RECORDS TO BE VERIFIED**

**I Marketing and sales department -**

1. Purchase Orders/Agreements/MOUs
2. Sales book

**II. Stores department -**

1. Stores Ledger
2. Job work/Sub-contract Register

**III. Finance & Accounts related records -**

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return
10. Sales Tax/VAT Return

**B. AREAS TO BE COVERED IN THE TAXPAYERS/UNITS AVAILING EXPORT PROMOTION SCHEMES:**

**I. Records to be verified in the marketing and sales departments -**

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
<b>1.</b>	<b>Purchase order/Agreements/MOUs</b>	<p><u>Nature of Document :</u> This document denotes the price and other conditions laid for purchase and sale of goods and services.</p> <p><u>Nature of Verification:</u> <u>Purchase order placed by Customers, Agreement/MOU with the Customers:</u></p> <p>(a) To verify the terms and conditions specially with respect to price revision, supply of any material/component by the customer, erection and commissioning charges. The total price charged in the Purchase Order may be compared with the Service Tax invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note.</p> <p>(b) To verify whether the invoice is raised for full amount as per the Purchase Order/Agreement/MOU</p> <p>(c) Tax &amp; duty structure agreed upon in the purchase order should be checked with invoices raised for provision of services. In case the unit raises a separate commercial invoice, such invoices should be checked for the basic price, taxes, etc. actually collected.</p>
<b>2.</b>	<b>Sales Book</b>	<p><u>Nature of Document:</u> This is used for recording all credit sale of products manufactured/traded and services provided.</p> <p><u>Nature of Verification:</u></p> <p>(a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined.</p> <p>(b) Verify how many series of sales invoices are used for provision of services. Whether ST invoice series and commercial invoice no. series are different.</p> <p>(c) Whether Debit Notes/Journal Vouchers are also entered in the sales register. If yes, whether Service Tax is payable on additional considerations received through such Debit Notes/JVs.</p> <p>(d) Sales register normally show Service Tax/Central Excise duty separately. Verify the cases where excise duty/Service Tax has not been paid and find out the reasons thereof.</p>

## II. Records to be verified in the stores department -

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	<b>Stores Ledger</b>	
	<p><u>Nature of Document :-</u> It contains the details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and its write off etc. Now a days most of the companies maintains stock records on computer.</p> <p><u>Types of Verification :-</u></p> <p>i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records.</p> <p>ii) Compare the purchase as per CENVAT documents with a receipt in the store records.</p> <p>iii) Verify whether any item written off due to obsolesce.</p>	
2.	<b>Sub contract Register / Job Work Register</b>	
	<p><u>Nature of Document :</u> This register indicates activity sub-contracted outside.</p> <p><u>Nature of Verification :</u></p> <p>(a) In case the job worker/sub-contractor discharges tax, then valuation of such goods/services should be examined as to inclusion of any freely supplied material in the value.</p>	

## III. Finance & Accounts related records -

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	<b>Ledger</b>	
	<p><u>Nature of document:</u> Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to excise duty payment may be entered in Service Tax/Excise Duty Payment Account. Ledgers are of three types:</p> <p>1. <u>Debtor's Ledger:</u> This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of sales invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account.</p> <p><u>Types of verification:</u></p> <p>(i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the sales of the goods/services. These documents may be sales invoices or debit notes or Journal Vouchers (JV). If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether service tax/excise duty has been paid or not.</p> <p>(ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment.</p> <p>2. <u>Creditor's Ledger:</u> This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared for rejection of purchase material or for short receipt of purchase material or for _____ of services.</p> <p><u>Types of verification:</u></p> <p>(i) If the customer's account shows details of debit note or JV, the reasons thereof may be inquired into and whether CENVAT credit has been reversed or not may be verified.</p> <p>3. <u>General Ledger :</u> This Ledger contains all accounts of assets, liabilities, incomes and expenses. Scrutiny of this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of excise duty/service tax. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny</p>	

	<p>is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below :</p> <p>(i) Credit entries in expenses account.  (ii) Income accounts.  (iii) Unusual account.</p> <p><u>Types of verification:</u></p> <p>(i) All the important input purchase accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether CENVAT credit has been reversed or not.  (ii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Sales Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer.  (iii) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such incomes accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the Service Tax liability.  (v) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized as to find out the exact nature of such accounts.  (vi) The tax auditor may verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of excise duty has been paid or not may be inquired into by the tax auditor.  (vii) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the assessee or from the Income Tax Audit Report.</p>
<b>2.</b>	<b>Debit Notes</b>
	<p><u>Nature of Documents:</u></p> <p>Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the amount from the addressee. Debit Note may be issued for various reasons like return/short receipt of goods purchased, increase in the rate/quantity of the goods sold/services rendered, recovery of packing charges, warranty charges, after-sales service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal manufacturer may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker.</p> <p><u>Types of Verification:</u></p> <p>(i) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor.  (ii) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore such documents should be studied in detail.  (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.</p>
<b>3.</b>	<b>Credit Note</b>
	<p>Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reasons like return of goods by the customer (sales return).</p>
<b>4.</b>	<b>Journal Voucher (JV)</b>
	<p><u>Nature of Document :-</u></p> <p>JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of</p>

	<p>royalty.</p> <p><u>Types of Verification:</u></p> <p>(i) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half year ending month or year ending month (September and March in the case of units following April to March as accounting year) must be verified.</p> <p>(ii) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts.</p> <p>(iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of CENVAT credit for entire year as only one JV is required to be examined for each month.</p> <p>(iv) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed.</p> <p>(v) Some times additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or sales invoice). In such cases these transactions are accounted for through JVs.</p> <p>(vi) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV.</p>
<b>5.</b>	<b>Internal Audit Report</b>
	<p><u>Nature of Document :-</u></p> <p>This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is a mandatory also.</p> <p><u>Types of verification :-</u></p> <p>i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of CENVAT credit, collection of additional consideration</p> <p>ii) Verify whether any system changes have been advised and followed by the assessee. In that case for the past period any implication on Excise payment due to a weak internal control needs to be examined.</p> <p>iii) Internal Auditor also reports about stock verification and in case of shortages the CENVAT availment needs to be examined.</p>
<b>6.</b>	<b>Purchase Book</b>
	<p><u>Nature of Document:</u></p> <p>This shows credit purchase of raw materials and other inputs.</p> <p><u>Nature of Verification:</u></p> <p>(a) To fine out major suppliers</p> <p>(b) It may also show excise duty separately. In that case excise duty recorded in the purchase register may be reconciled with credit availed as per CENVAT return.</p>
<b>7.</b>	<b>Purchase Return Book</b>
	<p><u>Nature of Document:</u></p> <p>This book gives details of goods returned to suppliers.</p> <p><u>Nature of Verification:</u></p> <p>Verify whether CENVAT credit has been expunged / such goods cleared on payment of duty.</p>
<b>8.</b>	<b>Tax Audit Report</b>
	<p><u>Nature of document:</u></p> <p>As per the provisions of the Income Tax Act, all assesseees having a turnover of above Rs.40 lakhs are required to have their records audited by a Chartered Accountant and the Audit Report known as Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with</p>

	<p>the Income tax return filed by the assessee.</p> <p><u>Nature of verification:</u></p> <p>Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of CENVAT credit on capital goods.</p> <p>(i) As per Clause 27(a) of the said report, amount of CENVAT credit availed or utilized during the year and its treatment in the Profit &amp; Loss Account and treatment of outstanding CENVAT credit in the account is required to be given. Tax Auditor may compare the said information with the information as per excise records.</p> <p>(ii) As per clause 35(a) to 35(c), details like opening stock, purchases, sales and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, sales, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether duty has been paid on the sale of raw material as reported in the tax audit report may be inquired into.</p>
<b>9.</b>	<b>Income Tax Returns</b>
	<p><u>Nature of document:</u></p> <p>This return is filed by the assessee with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and alongwith the return a statement namely computation of income is enclosed.</p> <p><u>Nature of verification:</u></p> <p>In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of CENVAT credit availed by the assessee or not.</p>
<b>10.</b>	<b>Sale Tax/VAT returns</b>
	<p><u>Types of verification:-</u></p> <p>i) Reconcile the total sales as per Central Excise returns, Sale Tax/VAT returns and financial records.</p> <p>ii) Verify whether any exemption has been claimed from payment of Excise duty and how the same item is being claimed for payment of Sale Tax / VAT.</p> <p>iii) Verify the credit availment on purchases as per VAT returns and compare with CENVAT Credit as per Excise records.</p> <p>iv) Verify the abatements claim in Sale Tax/VAT return and its implication on Excise payment, if any.</p> <p>v) Verify works contract tax payment as per Sale Tax/VAT return and its implication for payment of Excise duty/Service Tax.</p>
<b>B</b>	<b>Taxpayers/Units availing Benefits of various Export Promotion Schemes:</b>
	<p>In case of the taxpayers/units availing the benefits of various export promotion schemes require special attention. Further, the quantum of export benefits depends on fulfilment of prescribed conditions and the value of services exported. Service provided in DTA also constitute a sensitive area. The auditor should scrutinise the records and returns pertaining to these schemes for verification of fulfilment of such conditions. The auditor should go through the provisions of relevant FTP, Foreign Trade Procedures and Customs/ Central Excise/Service Tax notifications issued thereon. The auditor should also verify the actual receipt and utilization of capital goods as well as inputs/input services, imported or procured indigenously at concessional rates of duty under these schemes. In this regard the auditor may please go through the relevant check lists and documents required to be verified in case of each export promotion scheme for having an over view.</p>